South America and Hemisphere Defense

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An outstanding authority on Latin American history has condensed into this crisply-written volume the essential features of the American system as it has evolved in both continents and has suggested the course we must follow along cultural, political, and socioeconomic lines in order to preserve and strengthen the American heritage.

This is a book for all who are concerned with the problems produced by the crisis in our hemisphere, and especially for those who want authoritative information in comprehensive but brief form.

THE WALTER LYNWOOD FLEMING
LECTURES IN SOUTHERN HISTORY

LOUISIANA STATE UNIVERSITY

1941

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FOREWORD

The Walter Lynwood Fleming Lectures in Southern History, sponsored by the Graduate School and the Department of History of Louisiana State University, were inaugurated in 1937 to honor a former professor of history who distinguished himself as a scholar, researcher, and writer in the Civil War and Reconstruction periods.

Professor Fleming was a native of the South and a graduate of Alabama Polytechnic Institute and Columbia University. He taught at West Virginia University in his early years and completed his professional career at Vanderbilt University. In the interim, some of his most productive years were spent at Louisiana State University, 1907–1917. In all, some ten books and one hundred and sixty-six articles and reviews came from his pen. As a historian, his name stands for impartial yet sympathetic investigation of an important epoch in southern history.

It is the privilege of Louisiana State University to give permanent form to the lectures in 1941 by J. Fred Rippy, Professor of Latin American History at the University of Chicago.

AUTHOR'S PREFACE

I deeply appreciated the invitation to give a series of lectures subsidized by an endowment perpetuating the memory of one of the great historians of the South. I did not deal with the region in which Walter Lynwood Fleming was a specialist, but I have no doubt that Professor Fleming, if he were still among the living, would approve the action of Louisiana State University in arranging for a discussion of the relations of the United States with an area in which Southern statesmen of the ante-bellum period were often vitally interested and in which leaders of the South are once more gravely concerned.

The men who formulated our policies toward Latin America in the beginning were Southerners in the main. In large measure statesmen of the Old South were the originators of the Monroe Doctrine and other phases of the political and economic system for which the Americas have stood, and until 1860 the South furnished more diplomats to Latin America than all the rest of

the nation combined. Southern leaders of the earlier period made mistakes: at one time many of them supported a policy of aggression against their neighbors. But they piloted the nation through a number of critical periods, and the South displayed capacity for atonement later when admitted once more to the national councils after years of exclusion. To illustrate that capacity I need recall merely that the Democratic party became the party of anti-imperialism and mention the names of Woodrow Wilson and Cordell Hull. And to illustrate the present-day significance of Latin America in the life of the South I have only to allude to the location of the Caribbean region, list three competitive commodities—cotton, sugar cane, and tobacco —produced by the South and Latin America, and point out that production and export agreements may be required for these commodities if inter-American economic collaboration is to be achieved.

Because I had already examined the relations of the United States with northern Latin America in a volume entitled *The Caribbean Danger Zone,* published by G. P. Putnam's Sons in 1940, and because attention had shifted rapidly to South America during 1940–1941, I preferred in these lectures to deal with some phases of the relations

of the United States with that continent. Many possibilities were available; I selected those which seemed to fit the occasion and the prescribed limits of time and space. Following the example of previous lecturers in this series, I have reluctantly omitted citations and bibliography.

J. FRED RIPPY

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I

THE EVOLUTION OF THE AMERICAN SYSTEM

THERE is an American system. In theory and often in practice it has existed for more than a century. To that system Simón Bolívar and his contemporaries as well as many other Latin Americans of a more recent period have made important contributions. In large measure also it is the creation of the United States. Only in recent years have some of its aspects been clearly set forth. Its international institutions have been established for the most part since 1890; they are not yet fully developed. The American system embraces convictions and practices in domestic and international politics and in many areas of political, economic, social, and cultural significance. The present world crisis demands an examination of its history and its principles.

The United States—the first American nation

to win its independence and the first to set up a government of the people, by the people, and for the people—became the original champion of the democratic republic and of national independence in the Western Hemisphere. Still young and comparatively weak when the inhabitants of Latin America began their struggle for self-government, the United States did not give them military aid, but it took its stand as a referee determined that Spain should receive no European assistance in the effort to subdue the revolting colonies. Its policy with respect to the conflict was finally announced in the Monroe Doctrine. That policy, supported at the time by the parallel policy of Great Britain, probably contributed to the success of the Latin-American revolutions against European control. It was certainly a factor in the preservation of Latin-American independence after independence had been won.

Until the last decade or so, the Monroe Doctrine was mainly a device for defending the Caribbean area. In previous years it was seldom invoked with reference to South America because few occasions arose to require its invocation. During the first thirty years after its promulgation it was not officially brandished in reference to South America

even when conditions seemed to demand it. John Quincy Adams made no protest when the British intervened to set up Uruguay as a buffer state between Argentina and Brazil. Andrew Jackson made no move to enforce the doctrine when the British seized the Falkland Islands. James K. Polk and his successors uttered no remonstrance against European interventions and alleged designs to intervene in South America. In the 1840's and 1850's the doctrine was not fully enforced even in Central America, where Great Britain was expanding her domain. And during the 1860's its violation was permitted in Mexico and the Dominican Republic and was threatened with impunity in parts of Central and South America.

These events, however, did not mean that the doctrine had been abandoned. Nothing could have been accomplished by further defiance of European powers in respect to Central and South America during a period when the United States was defying them in respect to Texas and the Far West; and the Civil War had to be finished before France and Spain could be dealt with in the 1860's. The United States was busy laying the foundations of its prosperity and power. Attention and energies had to be concentrated in order to achieve that task.

Larger policies had to be neglected until the task was completed. It was a case of the impossible frustrating the desirable. European interventions in the Americas were not resisted, but they were deeply resented. Sentiments of stalwart Americanism were frequently expressed by Congress, the press, the presidents, and the secretaries of state.

Similar sentiments filled the correspondence of the diplomatic representatives of the United States in South America as well as in other parts of Latin America. During the decades following 1825 these diplomats frequently urged the authorities at Washington to resist European intervention or issue warnings against rumored plans of intervention. Such appeals came from agents of the United States in South America as they did from those in Mexico, Central America, and the West Indies; and in 1846, without instructions on that specific point, a minister of the United States in Bogotá signed a treaty guaranteeing New Granada its Isthmus of Panama.

Appeals for help were not lacking from certain political leaders in Santo Domingo, Central America, and Mexico, or from South American governments themselves. The treaty guaranteeing the Isthmus of Panama was signed at the urgent solici-

tation of the government of New Granada. Requests for support were made repeatedly by other governments of South America just as they were made by those of northern Latin America. They were made both during the independence epoch and afterward. In the 1840's and 1850's calls for aid were occasioned by European intervention in the Río de la Plata area; by fear that Juan José Flores and Andrés Santa Cruz would receive European assistance in their efforts to regain power in Ecuador and Bolivia; by apprehensions regarding British designs on Venezuela, the South American Pacific coast, and Central America; and by Louis Napoleon's ambitions in respect to Mexico.

It will be observed that a few Latin-American leaders were revealing lack of devotion to the American political system. Juan José Flores was certainly one of them and Andrés Santa Cruz was under suspicion. Buenaventura Báez and Pedro Santana of the Dominican Republic and Antonio López de Santa Anna and Mexican conservatives were among the number. By soliciting French intervention in 1859–1861 Gabriel García Moreno of Ecuador inscribed his name likewise among those who failed to keep the faith. The significant fact, however, is this: all efforts to impose régimes on

Latin America by means of European intervention failed. They failed in Central and South America as well as in Mexico and the Dominican Republic. They failed largely because of Europe's strife and America's stubborn nationalism and devotion to the republican system.

Lack of zeal for Americanism in certain quarters in the mid-nineteenth century was caused in the main by two factors: the unsatisfactory operation of the democratic republic and fear of conquest by the United States. The Mexican War and subsequent threats and aggressions by filibusters aroused widespread uneasiness and resentment in Latin America; and the growing distrust and hostility were fomented by the European rivals of the United States. Most of the diplomats of the United States in South America in the 1850's became petulant and resentful as they received news of efforts to stem the tide of invasion by means of Latin-American and European alliances. Ungrateful and shortsighted Latin Americans were planning, United States diplomats feared, to call in the European monarchs and to betray the American system. Most of the representatives of the United States in South America tried to justify the Mexican War while they denied that their government was aiding

or approving the filibuster operations. One of them, John W. Dana, minister of the United States in distant Bolivia, proposed a remedy for the prevalent Yankeephobia. The suggestions of this Maine diplomat were prophetic; they forecast the policies of Woodrow Wilson and Franklin D. Roosevelt. Dana suggested (1) that the United States should give the Latin-American nations a pledge neither to annex any of their territory nor to permit any European power to do so, and (2) that the United States should in return obtain from these nations a commitment to uphold the Monroe Doctrine and never to cede any part of their domains to any European state.

European interventions during the 1860's opened the eyes of many Latin Americans to the dilemma they confronted. If the United States was at times a threat to their security, it was also a bulwark against European encroachments. The British government, which had shielded them from European aggressors and tried to shield them against the United States during the years following the 1820's, had permitted the French and the Spaniards to break through. British sea power had failed the Latin Americans at the critical moment when the United States was engaged in domestic

conflict. Although they should have known that the Lincoln administration could do nothing to protect them from French and Spanish aggression, agents of Latin America—those of South America included among the group—hovered about the State Department and kept in touch with the bolder members of Congress. Late in 1864 representatives of seven of the ten independent South American governments—Brazil, Uruguay, and Paraguay did not send delegates, nor were any present from Mexico, Haiti, the Dominican Republic, or Central America—met in conference at Lima. They signed treaties of alliance but failed to ratify them. Peru and Chile resisted Spanish attacks, however, and Ecuador and Bolivia also agreed to collaborate in the war against Spain. Hostilities soon terminated; and the United States lent its good offices in the long negotiations which ended in the peace treaty.

During the next half century the Monroe Doctrine was rarely invoked, if at all, in respect to any of the South American countries except Venezuela, Colombia (Isthmus of Panama), and Ecuador (Galápagos Islands). In regions beyond, there was little reason to brandish it, although some uneasiness was felt in respect to European intentions regarding the conflicts between Chile and its neigh-

bors and with reference to the disorders which followed the overthrow of the Brazilian monarchy in 1889. In general it was assumed either that the countries of southern South America were not exposed to European intervention or conquest, or that they were capable of taking care of themselves. The Monroe Doctrine was still a defense device limited mainly to the Caribbean danger zone.

More recently, however, attention has shifted southward and both official utterances and public opinion clearly indicate not merely a growing uneasiness in respect to South America but a resolute determination to include all Latin America in the scope of the doctrine. One or another of its provisions has been invoked frequently by Franklin D. Roosevelt with reference to the whole of the Western Hemisphere; and despite talk in some circles of defending only so much of South America as lies north of the equator, a Gallup Poll announced in February, 1941, revealed that 86 per cent of the people in the United States were in favor of defending all Latin America against the totalitarian aggressors. Moreover, within the last few years the Latin Americans have signed solemn pledges to uphold the Monroe Doctrine.

One strong motive for detaching the New World

from the Old was the desire to isolate a segment of the earth for the development of a democratic way of life unhampered by the contamination and interference of other political systems. In general, the United States has sought to nourish democratic republics in the Americas. The first diplomats sent to Latin America were instructed to explain the operation and the superior virtues of that form of government; agents sent out by Lincoln during the crisis of the Civil War received similar instructions; Woodrow Wilson attempted to promote democratic processes in Latin America before he led his nation into a "war to end war and make the world safe for democracy"; and an appeal to democratic sympathies has been an important phase of the good-neighbor policy of Franklin D. Roosevelt and Cordell Hull. In the minds of many political leaders of the United States, Americanism has signified not merely the continued independence of the nations of the New World but the concept of democracy as their goal.

It is hardly necessary to observe that the domestic politics of most of the Latin-American countries has been a disappointment to not a few leaders in the United States and elsewhere in America. In the correspondence of the diplomats of the United

States the pessimistic note was frequently sounded. In the earlier period they often expressed fear that the democratic republic would be abandoned for monarchy. In more recent years great uneasiness has been felt regarding totalitarian inroads.

Enthusiasm for an American political system different and detached from that of Europe occasionally has driven the United States into rather drastic policies. At times the Washington government has insisted that the Latin-American states should either settle their disputes among themselves or confine outside mediation to the United States. This was the position of James G. Blaine, and it was virtually the position of Charles Evans Hughes and Frank Kellogg. But the policy was no doubt based in part on the conviction that European mediation might open the way for intervention of a more dangerous type. At times also enthusiasm for the democratic republic as a part of the American system has led to the violation of the sovereignty of the Latin-American nations. In earlier years of contact a firm adherence to the policy of nonintervention usually held democratic impulses in check. For alleged improper interference in the domestic politics of Mexico and Colombia, Joel Roberts Poinsett and William Henry Harrison

were both recalled in 1830. Diplomats were cautioned to abstain from political activities in the countries to which they were accredited. The main departures from the policy of nonintervention occurred after 1900. Woodrow Wilson, already alluded to, is the most outstanding example of the aggressive champions of democracy. But Theodore Roosevelt inaugurated the policy of frowning on domestic disorders in certain parts of Latin America; and Taft, Harding, Coolidge, and Hoover alike employed the device of refusal to recognize governments that had come to power in Latin America by means of revolutions or coups d'état. Against such governments every chief executive of the United States from Theodore Roosevelt to Herbert Hoover discriminated in matters of recognition, arms shipments, and loans. But the countries of South America were not often involved.

Such procedures were a form of intervention forbidden to non-American powers by the Monroe Doctrine; but intervention was usually designed to forestall intervention from the outside: American intervention against anticipated European intervention. Nevertheless, it aroused deep resentment in Latin America and was finally discontinued.

The promotion of democracy by intervention in the domestic politics of American countries is not a part of the American system. Yet if the democratic republic should be berated and ridiculed in Latin America, if the welfare state should be abandoned for the power state, one of the pillars of the American system would be demolished.

Turning to the economic aspects of the American system, one may observe at the outset that the desire to throw off commercial shackles was an important motive for the independence movement in all the Americas. After gaining independence the United States proceeded at once to formulate a policy regarding international trade and the use of the high seas. Among its maxims were the conditional most-favored-nation principle—equality of treatment for equality of concessions—and the right of each nation to determine by law what constituted a national vessel. The adoption of these principles in time of peace would tend to promote the foreign trade and merchant shipping of the United States. And foreign commerce and the carrying services would be further stimulated by access to the carrying trade of Latin America under the rule that whatever could be exported to or im-

ported from one of the American nations in its own vessels could also be imported or exported in the vessels of any other American nation.

In time of war, the United States insisted that enemy's goods on neutral vessels and neutrals' goods on vessels of the enemy, except contraband, should be free from capture; that contraband lists should be curtailed; and that blockades, in order to be binding, must be enforced by warships in the vicinity of the ports subjected to blockade. On several occasions both during the early national period and at the turn of last century the United States even urged the total abolition of warfare against private property on the high seas.

In brief, the commercial policy of the United States, formulated for the most part before the Latin Americans won their independence, was equality of treatment among the nations and freedom of the seas in time of war as well as in time of peace. Such a policy promoted the commercial and maritime interests of the United States but it also favored Latin America and all the weaker sea powers and tended to benefit all who abstained from war.

The most formidable opponent of these principles and contentions was Great Britain, a strong

sea power determined to maintain its dominance because its security and prosperity depended upon the control of the high seas. The British insisted on their own maritime rules and regulations. They insisted on long contraband lists and sweeping blockades. They insisted on their own definition of a national vessel in order to prevent the United States or any other rival from assembling a large merchant marine by employing foreigners in shipbuilding and navigation. According to the British definition a national vessel was one constructed in the shipyards of the country whose flag it hoisted and captained and manned by citizens or subjects of that country. Until the repeal of the Navigation Laws in the 1840's the British government excluded the United States from the carrying trade between the United Kingdom and its American colonies, or other European colonies in the New World, or even the Latin-American nations themselves. And it further hampered the carrying trade of other nations by the maxims of continuous voyage and ultimate destination of cargoes as well as by invoking the rule of 1756 against trading in time of war with any ports to which admission was not allowed in time of peace.

An important objective of the United States in

its commercial negotiations with other nations was a flank attack on British maritime practices. Such a flank attack was carried on in Latin America as well as in other parts of the world. The United States not only contended for admission into Latin-American ports on terms as favorable as those granted to any other nation. The United States also tried to commit these young nations to its own views regarding maritime rules and regulations and succeeded in writing most of these views into early commercial agreements with the Latin-American states.

John Quincy Adams and Henry Clay planned a general assault against the Old World restrictive system at the Panama Congress convoked by Simón Bolívar in 1826. Both Adams and Clay looked forward with eager anticipation to that occasion. A bitter factional fight in the United States Congress, however, prevented them from achieving their design. The delegation they sent failed to arrive in time to participate in the Panama assembly.

The Declaration of Paris, issued in 1856 at the termination of the Crimean War, embodied many of the contentions of the United States regarding maritime regulations. But the declaration was not approved by President Franklin Pierce because it

provided for the abolition of privateering without exempting enemy property on enemy vessels from capture by armed ships of belligerent nations. Pierce still urged the old contention of Benjamin Franklin and Thomas Jefferson that warfare against all private property on the high seas should be abolished. Unless enemy's goods on the enemy's vessels, as well as neutral cargoes on enemy ships and enemy cargoes on neutral ships, were to be safe from seizure by belligerent navies, the United States must retain the right to employ privateers. Once more its policy was directed at the maritime predominance of Great Britain. Once more also the United States engaged in a flank attack through widespread negotiations, not only refusing to adhere to the Declaration of Paris but trying to persuade other nations to follow the same course. For months vigorous negotiations were carried on in Latin America, especially South America, but they were not entirely successful. A few of the neighboring governments aligned themselves with the United States and refused to accept the Declaration of Paris; the majority soon adhered, but some of the adherents expressed sympathy with the views held at Washington.

At the Hague Peace Conference of 1907 the

United States made another effort to secure general assent to the abolition of warfare against private property on the high seas and found the Latin-American governments similarly divided. The effort failed again.

But neither in the late 1850's nor in 1907 did the outcome signify that the Latin Americans were opposed to the broad maxim of the freedom of the seas. At both periods they were influenced in part by resentment against certain Latin-American policies of the United States. And, since the Paris declaration of 1856 contained liberal principles with reference to maritime commerce, the Latin Americans preferred to accept it in the hope of obtaining further concessions in the future. The declaration was still in force among the majority of the nations of the world in 1907. It probably could not have been improved even if the Latin-American delegations at The Hague had formed a solid front with the United States. Nor did their failure to do so indicate a lack of liberal views on the broad aspects of the subject. Freedom of the seas has been definitely a part of the American system. It must be noted, however, that Nazi Germany's policies during the Second World War are a total rejection

of all the maritime principles for which the Americas have struggled. Private property is no longer safe on land or sea.

Motivated by strategy, benevolence, and a desire for profits from investments and trade, the Latin-American policy of the United States was aggressive in the early 1900's. It aroused suspicion and hostility in Latin America. Yet the Latin Americans responded favorably to the lofty ideals of Woodrow Wilson. For this and other reasons, eight of the nations of the region, but only Brazil among the South American countries, followed the United States into the First World War. Five others, four of the number—Bolivia, Ecuador, Peru, and Uruguay—South American states, soon broke relations with Germany. To a considerable extent this was a display of American solidarity against German militarism and ruthlessness.

At one time or another before its extinction all of the countries of Latin America became members of the League of Nations. Without abandoning the ideals of the American system, many of which were embodied in the League Covenant, the Latin-American nations became members of a world system. But the United States remained outside,

and before the final collapse of the League many of the other independent states of America withdrew.

The 1920's and early 1930's were years of bitterness and distrust in the relations of the United States and its neighbors as well as among some of the Latin-American nations themselves. Paraguay and Bolivia fought a bloody war and Peru and Colombia engaged in a minor military conflict. At the end of the period Pan-American relations improved and the development of the latest world crisis focussed attention once more on the American system. Since 1933 the system has been more clearly defined by means of a number of resolutions and agreements. At the beginning of 1941 the relations between the various nations of the Americas were more harmonious than ever before.

Among the principles of the American system as defined during recent years by the joint efforts of the leaders of the Americas, the following are fundamental:

1. Every state has the right to govern itself and live its own life; no state should intervene in the domestic affairs of another.
2. The use of force as an instrument of inter-

national policy is unlawful; territorial conquest will not be recognized; all differences of an international character should be settled by peaceful means.

3. Treaties will be faithfully observed; they can be revised only by agreement between signatory parties.
4. Any threat to the peace and safety of any of the independent states of Pan America will become the occasion for immediate consultation among them all.
5. Aggression against any one of these states will be considered an aggression against all and will encounter united resistance.
6. The independent nations of the Americas will collaborate in economic, social, and cultural affairs with the view of promoting the security and general welfare of the American peoples.

In short, the contemporary American system is based upon principles of harmony, mutual assistance, and solidarity against aggression; it is founded on the belief that peoples of different races and cultures may live together in peace and on the determination to resist the aggressions of conquerors who have renounced such humanitarian

principles and have based their policies on intolerance, hatred, treachery, violence, and terror.

The international agencies and instruments for formulating and executing the policies of the American system are many. Important among them are the Pan American Union; the Pan-American Sanitary Bureau; general and special conferences of the American states; a number of institutes and special committees to deal with economic, social, and cultural relations; five procedures for the settlement of international disputes; and provisions for regular consultation among the various foreign offices.

For more than a century the Western Hemisphere has been the most secure region on earth. It has been shielded by Europe's strife and Europe's delicate balance of power, by an evident determination to remain independent, and by remoteness from the base of Europe's aggressive military states. This long era of security may be approaching its end. The Americas may soon have to choose between war for the maintenance of their independence and submission to exploitation and slavery. This writer hopes and believes that in this crisis no nation, group, or individual will renounce faith in the American system and imperil its future.

The Western Hemisphere must be preserved for the continued development of a civilization dedicated to tolerance, co-operation, kindness, and all the humanitarian values. South America, particularly the central and southern portion, because of its proximity to Spain, Portugal, the Canary and Cape Verde Islands, and the west coast of Africa, may be the first to be attacked.

II

RESOURCES AND POLITICS OF SOUTH AMERICA

EL DORADO originally referred to an Indian chief who was accustomed during religious ceremonies to cover himself with oil and gold dust and plunge into a lake somewhere in northern South America. "Gilded Man" is the literal meaning of the phrase, but it eventually came to signify a land of abundant riches easy to acquire. In this sense as in the original it has been associated more often with South America than with any other region. For three centuries Spaniards and Portuguese searched South America's mountains, rivers, and jungles for the precious metals. Later, the British, who had assisted the people of the continent in their struggle for independence, rushed in to exploit the gold and silver mines. And the British were followed soon by adventurers from all parts of Europe who hoped to make easy fortunes by col-

lecting quinine, coca, rubber, ipecac, and other forest products or by panning gold, silver, and platinum from the jungle streams. From these enthusiasms the people of the United States were not immune.

The early interest of the people of the United States in South America was both commercial and political. They desired to see their neighbors in the continent of the Far South cast off the yokes of Spain and Portugal, detach themselves from the European balance of power, and form free, happy, and prosperous nations; but they also wished to trade with these people and transport South American commodities to the markets of the world.

Commercial expectations were not based precisely on the El Dorado concept at first. The discovery of gold in California, however, soon inspired hopes of finding immense riches in South America. To many a restless citizen of the United States in the middle 1850's South America was El Dorado. All that was needed to develop its fabulous resources was the steamboat, the steam engine, the newest agricultural implements, and the inevitable influx of immigrants from Europe and North America.

Tragic domestic discord in the United States

quickly blasted these high hopes. But they were renewed by Hinton Rowan Helper, James G. Blaine, and a score of later enthusiasts, who proclaimed that commerce and investments would bring speedy returns from South America. The enormous resources of the continent—not merely its precious metals and precious stones, but its industrial minerals, its forest products, its pastures, and its agricultural lands—could be quickly and profitably developed by the capital, technology, and enterprise of the people who had built in North America the richest civilization on earth. In the 1920's the bonds of South America's governments and the stocks and bonds of corporations proposing to exploit its treasures found a ready sale among investors in the United States. By 1930, investments of citizens of the United States in South America amounted to more than three billion dollars, and in the 1930's and 1940's the people of the United States were repeatedly warned that Europe's conquerors would eventually seize South America because no other part of the world possessed such a storehouse of wealth. South America was again El Dorado.

South America is considerably smaller than North America and by no means as large as Asia or Africa. On the whole, it is perhaps less at-

tractive as a permanent abode for men, especially white men, than any of the other great land masses with the exception of Africa and Australia. If the European conquerors had an even choice between Africa and South America it is not certain that they would choose South America. Africa is 60 per cent larger and is more conveniently located; its topographical handicaps are less difficult; its climate is, in general, not much worse; its interior is better known; and its population is both larger and more docile. But in the 1930's and 1940's it was being proclaimed in many quarters that even if the conquerors seized Africa they would want South America too. South America was the answer to a Nazi's prayer, the El Dorado which the European conquerors coveted.

In many respects South America is richly endowed. It contains emeralds and diamonds. It contains numerous minerals: gold, silver, platinum, copper, tin, lead, zinc, vanadium, manganese, iron, beauxite, chromium, nitrates, asphalt, petroleum, and others. It contains immense forests filled with pine, cabinet woods, dyewoods, a few rubber trees, and many nut-bearing trees and medicinal plants. It contains vast plains and savannas—one of them, the pampas, the best region in the world for

cereals and livestock—but most of these are seriously handicapped by heat, unequal distribution of rainfall, or enormous distances from the great markets. Moreover, the continent contains a semidesert more than 2,500 miles long on its Pacific coast and another semidesert extending westward from the easternmost shoulder of Brazil. It also contains more hot and humid jungle than any other continent on earth and the world's most baffling mountains. Half of South America, in fact, consists of undiluted tropics and fully another sixth is composed of lofty plateaus and peaks, bleak steppes, and blistering deserts poorly adapted to human habitation. The continent has no coking coal; precipitous mountains crowd its seacoasts and make good harbors scarce; most of its mighty rivers flow through the jungles; and more than half of its seven million square miles is plagued by alternating drought and flood, earthquakes, fevers, insect pests, and intestinal parasites. But South America is still El Dorado.

Approximately a third of the continent is as pleasant a dwelling place as man can find, except that it is far removed from the world's greatest marts of trade. The plains of central Argentina, the whole of Uruguay, a part of Paraguay, the

plains and savannas of southern Brazil, the California-like valleys of central Chile, half of the coastal plain of Peru, and nearly all of the highland areas above four thousand and below nine thousand feet are characterized by agreeable climates and fertile soils. But most of the minerals and forest products are high in the mountains, deep in the jungle lowlands, or out in the parching deserts. The riches are there, but sweat and toil and gold are required to bring them out. They must be assembled, transported to the seacoasts, and shipped across the wide oceans to world markets. After centuries of occupation by the Caucasian race, most of the ten nations of South America still lacked adequate means of transportation even in 1941. Yet they had severely taxed their resources and strained their credit in order to construct such means as they had. South America is not really El Dorado. El Dorado is still a myth.

The human resources of South America were even less known to the outside world of the 1940's than were its topography, climate, and natural resources. The continent was not densely populated; its inhabitants numbered less than ninety million in 1940.

At the time it was discovered by the Spaniards

and Portuguese, South America contained somewhere near eighteen million people. More than two thirds of its area was inhabited by nomads: three or four million Indians roamed over its temperate southland, along its mighty rivers, and through its jungles in search of fish, fruits, and game. Along the Pacific coast from the equator to northern Chile and on the plateaus from northern Chile to Ecuador and Colombia were located the semicivilizations of the Incas and the Chibchas with a combined population of fourteen or fifteen millions.

The long colonial period witnessed a decline in population. The inhabitants of South America numbered less than twelve million in 1823, hardly eight million in Spanish South America and approximately four million in the part that had been ruled by Portugal. The decline was caused by war, epidemics of smallpox, measles, and other diseases, hard labor, and violent economic readjustments. Of the some twelve million people living in South America in 1823, only a little more than two million were whites. Approximately seven million were Indians and mixtures of Indians and Caucasians, the Indians being slightly more numerous than the mestizos. The rest were Negroes or mixtures of Africans with the other two races, the Negro and

negroid elements being confined mainly to Brazil and to the northern part of Spanish South America (Colombia, Venezuela, and Ecuador). By 1860 this population had approximately doubled. At that time the inhabitants of Brazil numbered eight million and those of nine states of Spanish America fifteen million. The population of the United States was less than ten million in 1820 but more than thirty-one million in 1860.

During the whole of the colonial epoch Spain and Portugal had tried to confine migration to the peoples of the mother countries and had practically succeeded in doing so. It is reasonable therefore to attribute the paucity of immigrants largely to administrative policy. After the 1820's, however, restrictive measures ceased to be a factor. The independent governments of South America as a rule invited and encouraged Europeans to come in. But the Europeans failed to arrive in any considerable numbers except in Argentina, Uruguay, southern Brazil, and Chile, and comparatively few migrated to Chile. Between 1820 and 1920 the United States received thirty million Europeans; the South American nations received less than ten million, the majority of the states almost none at all. To the people of Europe, South America was either

not El Dorado or else they did not consider El Dorado a pleasant place to live. Among the retarding influences were political disorders causing insecurity for life and property; religious intolerance; low living standards; lack of sanitation and means of communication; tropical climate; and scarcity of land in many of the more pleasant regions where the best lands were already concentrated in the hands of the South American oligarchy.

In the United States the population increased to 131 million by 1940. In South America, where the total land area is more than twice as great and where the population was more numerous a hundred and twenty years before, the inhabitants numbered, as already observed, scarcely ninety million. In 1940 South America, with 13 per cent of the total land area of the earth, had only 4 per cent of the world's population. Of South America as a whole the population density was only thirteen to the square mile. And three fourths of its people were living in a fourth of its area. They were dwelling in the temperate southlands and the tropical uplands or in such coastal areas as were cooled by the Humboldt Current or moderated by the Caribbean and Atlantic breezes. Few of the people of the

continent ventured to live in the frigid cold of Patagonia or South Chile or in the blistering heat of the low valleys of the Amazon, the Orinoco, the Magdalena, and the Atrato, or the upper basin of the Río de la Plata. Nearly half of the inhabitants of South America were living in Brazil; the population of Argentina, which is a little larger than the United States east of the Mississippi, was thirteen million; the inhabitants of Colombia, dwelling mainly in the plateaus and elevated valleys of the Andes, numbered nine million; the population of the other seven nations ranged from some six million in Peru and five million in Chile to two million in small Uruguay and less than a million in Paraguay. In half the continent the density of human occupation was no more than two or three to the square mile.

During the century and more of independence the racial composition of the South American peoples did not greatly change save in the South Temperate Zone. In that region, with the exception of Chile, the mixed and primitive races disappeared, giving way to the European immigrants and the American-born whites. In Chile both the whites and the mestizos increased in relative percentages while the percentage of pure Indians

rapidly declined. In the vast tropical regions of Brazil the Negro and negroid elements continued to be numerically preponderant. In the rest of the continent the Indians and mixbloods continued by far to outnumber the whites. Colombia and perhaps Peru had a somewhat larger percentage of Caucasians than did the remainder of the tropical countries; African and African mixtures were a fairly large element in the populations of Venezuela, Ecuador, and Colombia. The population of the three mainland colonies of South America—British, Dutch, and French Guiana, with a combined area of some 180,000 square miles and an aggregate of approximately 540,000 inhabitants—consisted mainly of Negroes, Indians, and mixtures of the two. And the same was true of the Dutch colony of Curaçao and the British colony of Trinidad, island settlements with a total of some 450,000 inhabitants and located so close to South America as to be geographically and strategically a part of the continent.

Such mixed and primitive inhabitants tend to depress the level of culture wherever they form a large segment of the population, just as they depress the cultural level in some parts of the United States. This observation implies no disparagement

with reference to the ultimate capacity of such people or their potentialities in more favorable circumstances. Time and environment must be taken into account. In their progress toward a higher plane of living these mixed and primitive peoples got a late start and encountered the handicaps of slavery, serfdom, and other forms of exploitation as well as oppressive heat, stupefying cold, and debilitating disease. The masses in nearly all of the ten independent countries of South America and in the Guianas and island colonies as well have rated and still rate low in their ability to produce and their capacity to consume. They have always been and continue to be poor, disease-ridden, uneducated, and apathetic; badly housed, scantily fed and clothed, deficient in health and energy. Almost none of them possess or have ever possessed bathrooms and toilet facilities, comfortable beds, telephones, radios, and automobiles, or live in homes supplied with electric current; and few indeed have adequate medical care. Everywhere save in the South Temperate Zone and in certain industries of the other regions wages are not far above a bare subsistence level. Although there are a few millionaires in all of the independent nations and several in Argentina, Brazil, and even Chile, almost every-

where except in Uruguay, Argentina, southern Brazil, and very small segments of the other countries the living standards of the bulk of the people remind one of the Orient and Africa. Illiteracy ranges from 70 or 80 per cent in Paraguay and Bolivia (educationally the most retarded) to 25 or 30 per cent in Uruguay and Argentina (educationally the most advanced). And illiteracy approximates 50 or 60 per cent in some of the rural sections of Argentina. These are the figures for the 1930's. Between 1825 and 1860 or even between 1860 and 1900 illiteracy was universally much higher.

On the whole, the political history of the South American nations since independence has been characterized by turbulence, violence, and tyranny; by civil wars, international wars, and dictatorial régimes. The course of domestic politics has run more smoothly in some states than in others, but comparatively few have demonstrated impressive capacity for peaceful and orderly self-government. Revolts and international conflicts occurred as late as the early 1930's, which also witnessed a revival of dictatorships. At the beginning of 1941 democracies and near democracies existed in Colombia, Venezuela, Uruguay, Chile, and Argentina. The

other five independent nations were ruled by dictators or military juntas.

The causes of dictatorship in South America were many. Among them were political inexperience, racial heterogeneity, mass ignorance, economic inequalities, the long wars for independence, and perhaps the very character of the Spaniards and Portuguese themselves, for the democratic system has never operated successfully in either Spain or Portugal. To these causes, or possible causes, were added in recent years the world economic depression and Europe's new ideologies. It may be observed, however, that the dictatorial régimes of South America have lacked the systematic thoroughness of the totalitarian systems of Europe. The controls have been far less pervasive and rigid; and democracy, with few exceptions, has never been ridiculed and berated. On the contrary, the dictatorships have been justified as a sort of transitional stage on the way to democracy, in which the people of the continent have never entirely lost faith.

In these circumstances the devotees of democracy in other parts of the world may find the basis for a measure of optimism. Perhaps such devotees may also discover consolation in the fact that South

America, from their viewpoint, has seen worse periods than the present since its inhabitants began their career of self-government more than a century ago.

It is possible that the first thirty or forty years of their political apprenticeship were more turbulent and tyrannical than any epoch that followed. From this generalization Brazil must in part be excepted, for during the reign of Dom Pedro II (1840–1889) Brazil was fairly well governed under the system of constitutional monarchy. Between 1848 and 1889 no serious political upheavals occurred and the nation registered considerable progress, both economic and social. In Spanish South America conditions were quite different.

Between 1811 and 1870 Paraguay was ruled in succession by three despots, only the second of them—Carlos Antonio López—displaying any semblance of benevolence. After 1870 Paraguayans had more freedom, but in 1941 the country was governed by a dictator.

In Uruguay, after the kindly and statesmanlike José Gervasio Artigas was expelled from the country in 1820, dictator followed dictator in rapid succession until the close of the century. There-

after, Uruguay became a democracy, but was subjected to a dictatorship in the 1930's.

Argentina passed through a period of bloody civil wars, the long and cruel dictatorship of Manuel Rosas, the enlightened despotism of Justo José Urquiza, and then more civil wars before achieving national unity (1880) and a conservative republic dominated by the intellectuals and the *hacendados*. Progress toward democracy followed later, but in the 1930's Argentina became a semi-dictatorship.

Chile became a conservative and stable republic by the middle of last century after short periods of dictatorship—under Bernardo O'Higgins, Diego Portales, and others—as well as several years of virtual anarchy. But the decade between 1925 and 1935 was one of turbulence and repression.

In Bolivia one dictator followed another, usually at short intervals, during the whole of the nineteenth century. Thereafter politics became more stable for a time, but governments continued to be despotic.

Peru went through an epoch of terrible violence until it was subdued in 1843–1845 by the autocrat Ramón Castilla, who was noted for constructive

reforms and certain liberal tendencies. But even in the later period it was seldom undisturbed by revolt and threats of revolt. Practically every chief executive of independent Peru has been a dictator or a semidictator.

And in the main this has been true of Ecuador and Venezuela. Prior to 1860 only one Ecuadorian ruler, Vicente Rocafuerte, displayed genuine democratic tendencies, and Rocafuerte governed Ecuador only five years (1834–1839). Juan José Flores subjected Ecuador to his despotic sway for ten years and disturbed its tranquillity until his death in 1864; the nation was governed for fifteen years (1860–1875) by the pious despot, Gabriel García Moreno. Venezuela was dominated for two decades by the autocratic José Antonio Páez, who returned to power again in 1861, after spending more than a decade in exile. For most of the period between 1846 and 1860 the nation was ruled by the tyrannical Monagas brothers, and the years that followed witnessed a succession of dictators until the death of the tyrant Juan Vicente Gómez late in 1935. Eleazar López Contreras, who followed Gómez, is perhaps the only democratic ruler Venezuela has ever had.

Colombia was frequently harried by civil war

until 1903 but was less frequently ruled by dictators than any country of tropical South America. None of the five or six who dominated the nation during the first century of its independence retained power long except Rafael Núñez (1885–1894).

International relations in South America were at times far from harmonious. The causes of friction were many: unsettled boundaries, disputes over the navigation of international rivers, conspiracies hatched by political refugees across international frontiers, and feuds among ambitious military chiefs who were seeking revenge, trying to seize territory and rich natural resources claimed by their neighbors, or endeavoring to widen their political affiliations and create larger political unities by means of menace and force. Between 1825 and 1935 six wars were fought between the various South American states, not to mention a much larger number of skirmishes along contested borderlands. Once again, however, the most belligerent period was the earlier period. Five of the international wars were fought between 1825 and 1883 and three of them before 1860.

The decade between 1860 and 1870 was one of the darkest in the history of the Americas. It was

the period of the Civil War in the United States and of revolts in practically every country in Latin America. In South America revolts occurred in every nation except Chile, Brazil, and Paraguay, and during the last half of the decade Paraguay was almost exterminated in its bloody struggle against the combined armies of Argentina, Brazil, and Uruguay. This was also the epoch of French intervention in Mexico, of Spanish intervention in the Dominican Republic, of Spanish hostilities against Peru and Chile, and of the beginning of Cuba's Ten Years' War against Hispanic oppression.

The early decades of the twentieth century were characterized by growing harmony among the nations of Latin America. Only one war and two skirmishes occurred between the South American countries. The Chaco War, fought intermittently between Paraguay and Bolivia from 1928 to 1935, ended in a satisfactory boundary agreement; and only one serious frontier dispute, that between Ecuador and Peru, remained unsettled at the beginning of 1941.

Such are the resources, material and human, of the continent which is once again the subject of profound interest and apprehension in the United

States. The Gallup Poll of February, 1941, clearly indicated that its wealth and its future were somewhat exaggerated in the popular mind. Only a tiny minority in the United States was fully aware that any part of South America was poor, weak, and backward. This writer has no disposition to underrate its resources and its importance. It is a part of the Americas, and the Americas embrace more than lands, minerals, and forests. The Americas possess a heritage of ideals, hopes, and purposes as important as all their material wealth. South America should be defended not merely because of its physical resources; it should also be defended because it is a part of the domain of the American experiment. It would be unfortunate if South America should become a segment of the slave empires of conquerors who have rejected every humanitarian ideal for which the peoples of the New World have struggled. But nothing will be gained by roseate illusions; "sweat, toil, and blood" may lie ahead for the champions of the American way of life. The task of defending the peoples of the Western Hemisphere against aggressors who would deny them the right to be independent and free may fall largely upon the United States.

III

COMMERCIAL RELATIONS

THE attitude of the United States in respect to trade with South America has varied from enthusiasm to indifference. The period from 1815 to 1855, and especially the 1820's and the middle 1850's, was one of intense interest. During the next thirty years South American commerce was of little concern. The 1880's and 1890's witnessed a revival of interest, which mounted to enthusiasm during the First World War period and the decade that succeeded. The years following 1930 were an epoch of depression and discouragement, transformed into anxiety by the Nazi trade and propaganda drives of 1935 and afterward. Nazi military successes in Europe underscored the immense strategic importance of economic relations with South America and the surpluses of that continent became a grave problem in hemisphere defense.

From the era of independence to the closing

decades of the nineteenth century the economic development of South America was slow. As late as 1897 the exports of the ten independent nations of the continent, which were sending abroad a large part of their total production, were valued at slightly less than $354 million; their imports at approximately $298 million. In subsequent years the foreign commerce of the continent increased rapidly. The exports of the ten independent nations of South America reached the total of nearly $1,158 million in 1913; their imports were valued at $1,021 million. The period of the First World War and the decade that followed were a boom era. Exports of the ten independent states were valued at over $2,214 million in 1929; imports at more than $1,870 million. The world depression struck the foreign commerce of the region a terrible blow, but recovery was steady after 1932. In 1937 the exports of the ten nations reached $1,867 million and imports were valued at $1,229 million. The trade of the Guiana colonies has never been large: the total value of their imports and exports was $27 million in 1913 and only $19 million in 1936.

During the early years of the twentieth century South America's share of world trade was still

small. In 1913 it was supplying only 6 per cent of the world's exports and taking a little more than 5 per cent of the world's imports; in 1937 its share of exports was 7.4 per cent and its share of imports 4.6 per cent. In the latter year the percentages for the United States were 13.2 and 11.3; for Canada they were 4 and 3 respectively; for Africa they were 4.8 and 5.8; for Japan they were 4 and 3.6.

The value of foreign commerce varied greatly among the South American states. During the nineteenth century Brazil led all the rest, with Argentina usually holding second place. After 1900 Argentina took the lead. In fact, the foreign trade of these two countries as a rule aggregated more than half the trade of the continent after 1860. Comparatively, the foreign commerce of Paraguay, Ecuador, Bolivia, and Uruguay has been of minor importance, however significant it may have been to these small countries themselves. The figures for 1897 and 1937 are given in the table below:

Country	*Exports*		*Imports*	
(Value in millions of United States dollars)				
	1897	1937	1897	1937
Argentina	97.6	757.4	94.8	482.1
Bolivia	11.0	46.2	11.6	22.0
Brazil	130.2	350.3	104.9	334.3
Chile	23.6	192.2	23.8	88.3

Colombia	15.0	104.4	11.5	96.1
Ecuador	4.0	14.0	7.0	11.0
Paraguay	5.7	9.0	2.2	9.3
Peru	14.7	93.2	8.5	60.1
Uruguay	30.3	78.0	20.1	63.6
Venezuela	21.5	253.6	13.2	90.5

During the whole of the nineteenth century the trade of the United States with South America was not large. The British had most of the foreign commerce of the continent until the 1890's and continued to have more than the United States until after 1913. After the middle 1890's Germany became an important competitor, supplying a larger percentage of the imports of South America in 1912 and 1913, for instance, than did the United States. The value of the exports of the United States to South America was only $6 million in 1830, $7 million in 1850, and $14 million in 1860. Imports of the United States from South America were $5 million in 1830, $17 million in 1850, and $34 million in 1860. Trade of the United States with Brazil during this period was far more important than its trade with any other South American country. The total trade between the United States and Brazil in 1860 exceeded the aggregate commerce of the United States with all the rest of South America. The progress of commercial relations with the continent was unsatisfactory during

the decades following the Civil War, especially the export trade of the United States with South America, which was less in 1885 than in 1870. Imports increased from $46 million in 1870 to $65 million in 1885. By the 1890's a gradual increase in the exports of the United States to the region was evident.

During most of the nineteenth century South America's share of the foreign commerce of the United States was small. In 1821 South America took only 4.1 per cent of the exports of the United States and supplied only 2.9 per cent of its imports. In 1850 the figures were 5.4 per cent and 9.2 per cent; between 1870 and 1885 the annual average was 3.7 per cent of the exports of the United States and 11.5 per cent of its imports; in 1895 the figures were 4.2 per cent and 15.3 per cent.

The year 1916 was the real beginning of the boom era in the trade of the United States and South America, with the First World War mainly responsible for the boom. Exports of the United States to the ten independent countries of South America were $245 million in 1916 and $394 million in 1917; imports were $453 million and $603 million. In 1917 the United States supplied nearly 44 per cent of their imports and took 42 per cent

of their exports. The percentages for 1913 had been 16.25 and 17.65! The United States managed to retain this large trade after the war was over, but mainly through huge loans to South America. Exports to the ten nations of the continent in 1929 were $587 million; imports from them $571 million. But the percentage of their total exports and imports shared by the United States had fallen to 25.44 and 31.30. European competitors had returned to the South American markets.

Then followed the world economic depression, sharply reducing the foreign commerce both of the United States and of South America and particularly the trade between them. The total value of the exports of the United States to the ten independent countries of South America in 1932 was less than $102 million; aggregate imports from them $184 million. And this was 23 per cent of their exports and 22 per cent of their imports. Their total foreign commerce in 1932 was less than $1,240 million as compared to $2,804 million in 1918 and $4,085 million in 1929. From the low point of 1932, however, the foreign commerce of the South American countries rose rapidly until it exceeded $3,096 million in 1937.

In the meantime, the Nazi trade drive had be-

gun. In 1936 and 1937 Germany supplied more than 16 per cent of the imports of South America and took almost 9 per cent of its exports. In 1938 the Nazi share was 17.5 per cent and 11.7 per cent respectively. German advances were confined mainly to five of the states: Brazil, Chile, Ecuador, Peru, and Uruguay; and the expansion was particularly impressive in the imports of these five countries. Germany forged ahead of Great Britain in exports to every South American country except Argentina and Uruguay; crowded the United States out of first place in exports to Brazil, Uruguay, and Paraguay; and was running the United States a close race in Chile. This achievement of the Nazis was mainly the result of official subsidy and barter.

The Nazi trade offensive, accompanied by vigorous propaganda, caused uneasiness in the United States, and uneasiness was increased by awareness of the existence of a million or more German residents in South America. Nazi military victories in Europe intensified emotions until consternation prevailed in some quarters of the United States by the middle of 1940. Germany's position in South America's foreign trade was actually less favorable in 1938 than it was in 1913, for Germany's

share in 1913 was 18.35 per cent of the continent's imports and 13.73 per cent of its exports as compared to 17.5 per cent and 11.7 per cent in 1938. But trade expansion by Kaiser Wilhelm's Germany seemed far less dangerous than the advances of Adolf Hitler's Germany. Inter-American solidarity as a defense measure became a maxim of the foreign policy of the United States.

It was soon evident that South America, and especially the southern part of the continent, was the main commercial problem. The United States was taking between 65 per cent and 70 per cent of the exports of northern Latin America and furnishing more than 60 per cent of its imports, but it was buying less than a fourth of the exports of South America and supplying less than a third of its aggregate imports. The problem was mainly one of South American surpluses. In 1937, for instance, the United States was able to purchase, according to official statistics, slightly less than 22 per cent of the exports of the ten nations of the continent; and their total exports for that year amounted to $1,867 million. Through imports of Bolivian tin indirectly from England and imports of Venezuelan petroleum indirectly from Dutch Curaçao, the United States furnished a market for

a little higher percentage. But, even so, the situation was most difficult. It was especially difficult in the case of Argentina, the leading exporting nation of South America; and it was perplexing enough in the cases of Paraguay, Uruguay, and Chile. The following table of the percentages of the exports of eight of the states taken by the United States in 1937 and 1938 is significant. (Bolivia and Venezuela are omitted because of unknown but large indirect purchases of tin and petroleum.)

PERCENTAGE OF EXPORTS TAKEN BY UNITED STATES

Country	*1937*	*1938*	*Country*	*1937*	*1938*
Argentina	12.8	8.5	Brazil	36.3	34.3
Chile	22.5	15.7	Colombia	64.1	58.2
Ecuador	33.2	37.5	Paraguay	7.8	12.8
Peru	22.2	26.8	Uruguay	14.1	4.0

The extent to which the countries of southern South America were depending in 1937 upon the vast region dominated by Germany in 1940 was alarming: Argentina 36 per cent, Chile and Paraguay 29 per cent each, Uruguay 27 per cent, and Peru 25 per cent. In addition, the dependency of Brazil was more than 25 per cent and that of Ecuador, farther north, was at least 40 per cent. In 1937 even the two South American countries nearest the United States found outlets for a consider-

able part of their excess commodities in Germany and the countries later conquered by the Nazis: Colombia's dependence was at least 16 per cent and Venezuela's no doubt larger, although the trade of Venezuela with the region was mainly indirect through exports of petroleum by way of the Dutch West Indies. If the Nazis should succeed in organizing this densely populated European area as a power block subjected to industrial slavery they might seriously threaten the independence of South America. Unless Adolf Hitler preferred to confine his attention to Africa and Western Asia he might use this vast European economic unit to subdue and enslave at least the southern part of South America, playing nation against nation and rival group against rival group until the whole region would be powerless to resist his totalitarian machinations. And if the Nazis should conquer the British Isles, South America would be more completely at his mercy. The dependence of South America on markets under Nazi control would then range from 35 per cent to 50 per cent in the cases of Brazil, Ecuador, Paraguay, Chile, Peru, and Uruguay; to 65 per cent in the case of Argentina. The dependence of Bolivia would be 85 per cent provided the United States had not in the

meantime placed itself in a position to purchase and refine Bolivia's tin.

The commercial problem will become more concrete if the South American countries are classified on the basis of their principal export commodities. Thus classified, they fall into three groups: (1) countries depending almost exclusively on mineral exports; (2) countries relying almost entirely on exports from the farm, the ranch, and the forests; and (3) countries exporting both groups of commodities. Bolivia, Chile, and Venezuela belong to the mineral group. Argentina, Brazil, Paraguay, and Uruguay export mainly the products of farm, ranch, and forest. Colombia, Ecuador, and Peru export large percentages of both commodity groups.

Consider the mineral exports first. Six of the South American nations export minerals almost exclusively or in considerable measure. (Exports for the year 1937 serve as the basis for this analysis.) Petroleum is an important item in the exports of three countries: Venezuela, 91 per cent; Peru, 33 per cent; Colombia, 19 per cent (rapidly increasing). The copper states are two: Chile, 53 per cent of total exports; Peru, 14 per cent. Tin composes 69 per cent of Bolivia's exports. Gold or

silver or both are commodity exports of five of the South American states: Bolivia, Chile, Colombia, Ecuador, and Peru. But the ratio is high only in the cases of Colombia, Bolivia, and Ecuador. Minerals other than petroleum and the four metals mentioned contribute high percentages of the aggregate exports of Bolivia, Peru, and Chile, nitrates forming 20 per cent of Chile's exports.

Except for nitrates, which the United States might purchase in larger quantities if the synthetic product were not preferred, minerals are not a serious problem in inter-American trade. The purchase of the precious metals at present prices does not elicit universal approval, but there is plenty of room for storage in Kentucky and New York. The United States buys most of South America's copper except Chile's copper, and might purchase more of that if the price were not controlled by a Belgian-British cartel. And the United States might profit by encouraging increases in the production of such strategic metals as tin, manganese, tungsten, chromite, antimony, and vanadium.

None of the countries depending almost exclusively on mineral exports—Bolivia, Chile, and Venezuela—produces enough food to supply the domestic market; they furnish an opportunity for

sale by the United States of both agricultural and manufactured commodities. Two of the states whose minerals bulk fairly large in their exports —Colombia and Ecuador—should not occasion serious difficulty. Peru, the third state of this group, exports cotton and sugar along with its minerals, and cotton and sugar tend to produce Pan-American headache. Yet Peru's cotton is of the long-staple variety which does not compete with cotton grown in the United States.

Distributed with reference to individual agricultural and pastoral commodities, the South American states form a number of interesting groups:

Coffee occupies a large place among the exports of two of the states and is a fairly important item in the exports of two others. It makes up 54 per cent of the exports of Colombia and 42 per cent of the exports of Brazil. The percentages for Ecuador and Venezuela are 14 and 5 respectively.

Cotton is a significant item in the exports of three states: Peru and Paraguay, 24 per cent each; Brazil, 19 per cent. These three countries produced nearly three million bales in 1937. Only Peru grows the long-staple cotton.

In only two states do grains bulk large in the

total of exports. They form half of Argentina's exports and 13 per cent of Uruguay's.

Animal products are a valuable item among the exports of a number of the South American countries. Meats compose important percentages of the exports of three: Argentina, 15 per cent; Uruguay, 19 per cent; Paraguay, 12 per cent. Hides make up 6 per cent of the exports of Argentina and Brazil, 13 per cent of Paraguay's, and 10 per cent of Uruguay's. And Uruguay is decidedly dependent upon the export of wool, which constitutes 47 per cent of its aggregate exports, while wool contributes 6 per cent of Argentina's total exports, 5 per cent of Chile's, and 4 per cent of Peru's.

Sugar, which is so important in some of the island republics of Latin America, is a comparatively valuable item in the exports of only one South American country. It supplies 9 per cent of the exports of Peru. The situation is the same in respect to bananas, which compose a valuable export item in only one of the South American countries. They compose 4 per cent of the exports of Colombia.

Cacao is a significant export commodity of only one South American state. It makes up 21 per cent of the exports of Ecuador, being that country's

most valuable export. Cacao accounts, however, for 5 per cent of Brazil's exports and 2 per cent of Venezuela's.

Of the agricultural and pastoral commodities, five can be taken by the United States without much injury to domestic producers. These are coffee, bananas, cacao, hides, and wool. The others—grains, meats, cotton, and sugar—are competitive. They raise the most difficult problem in inter-American commerce; and they affect the economic welfare of five South American states: Argentina, Brazil, Paraguay, Peru, and Uruguay.

The South American nations possess nearly a fourth of the world's forests, but with the exception of Paraguay, forest products are relatively unimportant among their exports. Twenty-three per cent of Paraguay's exports consist of quebracho and quebracho extract; and Argentina exports an even larger quantity of these products, although they do not form a large percentage of the total exports of the country. Brazil, Chile, and Ecuador ship abroad an aggregate of some five million dollars' worth of timber and cabinet woods annually. In the year 1937 Brazilian exports of babassu nuts and castor beans were valued at approximately nine million dollars. South American trade in forest products

could doubtless be greatly expanded if foreign markets could be found.

If the United States desires to increase its trade with the people of South America, and if it is necessary to buy more from South America in order to sell more to the people of that continent, then the United States must purchase more of what they produce or encourage them to grow something else that can be bought.

For the United States the commercial problem is not the problem of producing what the South Americans need. If they require foods, the United States can supply foods; if they need manufactured products, the United States can furnish manufactured products. The problem is one of South American purchasing power. The purchasing power of South Americans can be increased by exporting more of the commodities they already produce, by developing and exporting new products which can find a more ready market abroad, or by borrowing money outside their boundaries in order to pay for the goods they import.

Some of the South American countries which have most difficulty in exporting their commodities to the United States can find a measure of relief by trading with one another. To a considerable extent

they are already doing this, as the following tabulation for the year 1938 reveals:

PERCENTAGES OF TRADE AMONG CERTAIN LATIN-AMERICAN STATES IN 1938

Country	*Imports*	*Exports*	*Country*	*Imports*	*Exports*
Argentina	10.3	11.1	Ecuador	6.6	22.9
Bolivia	30.9	4.0	Paraguay	42.2	48.5
Brazil	13.9	6.3	Peru	10.7	20.1
Chile	13.8	4.6	Uruguay	19.1	14.1

The trade of Colombia and Venezuela with the rest of the countries of Latin America is of no importance. As one would expect, it is a case of South American temperate-zone countries trading with their tropical neighbors or their nearest neighbors. For instance, Argentina's Latin-American trade is mainly with Brazil, Paraguay, Uruguay, Bolivia, Peru, and Chile; and Brazil's is for the most part with Argentina and Uruguay. With improved communications and better planning, trade between the South American countries may be expanded. Such expansion may not curtail the trade of the United States with these countries, since more than adequate compensation may be obtained through what is known as triangular trade. In January, 1941, representatives of Argentina, Brazil, Bolivia, Paraguay, and Uruguay met in conference at Monte-

video for the purpose of promoting commercial interchange.

The United States may expand the export markets of South America and thus increase the purchasing power of its people by lowering tariffs and enlarging import quotas, by loans for the development of commodities not efficiently produced in the United States, by financing purchases from the United States, and by transferring some of its purchases from the African and Oriental empires of the British, the French, the Belgians, and the Dutch. To some extent these devices were employed in the 1930's and the beginning of the 1940's.

The Hull reciprocal trade agreements and quota arrangements were efforts to deal with import restrictions. Trade agreements were signed with a number of the countries, but no agreements were concluded with Chile or with the states exporting meats and grains. Either tariffs or excise duties were still being levied on a number of South American commodities, some of minor and others of major importance. Such trade restrictions were applied to copper, petroleum, sugar, flaxseed, wheat, cotton and cottonseed, castor beans and

castor oil, and many other South American commodities.

Through the Import-Export Bank the United States is financing exports to South America as well as the rest of Latin America. The bank is also granting loans for the purpose of stimulating the production of complementary or noncompetitive commodities. The development of new commodities will of course require considerable time. Forest products such as rubber, cabinet woods, dyewoods, certain types of lumber, various kinds of oils and nuts—coconuts and palm oil prominent among them—and quinine and a number of drugs, as well as several industrial and strategic minerals, seem to offer the fairest prospects. Certain types of specialized manufactured products and handicraft commodities are also being considered.

The development of complementary commodities on a large scale will involve the transfer of purchases by the United States from the Old World to the New. Nearly everything now (1941) produced in South America or in Latin America as a whole, and almost everything that can ever be produced there, can also be produced elsewhere. It is largely a question of disposition, time, and planned economy.

The potentialities of this transfer of purchases by the United States from Africa and the Orient to Latin America are great. In 1937 United States imports from British India, British Malaya, the Netherlands Indies, and Africa amounted to $590 million as compared to $422 million from South America, including the Guianas. The United States could import more bananas from Latin America if it were disposed to purchase less from the British and French empires. The United States could buy more hides and skins from South America if purchases from the British Empire were reduced. The United States could shift valuable purchases of manganese ore from India, South Africa, and the Gold Coast to Brazil and Chile, and to Cuba and Mexico as well. The United States could take more cacao beans from Brazil, Venezuela, and other Latin-American countries if it took less from British and French Africa. Immense purchases of tanning materials, coconuts, coconut shells, kopra, and palm oil could be transferred from the empires of the British, the French, and the Dutch to tropical South America and the nearer neighbors of the United States. The people of this country could drink more South American and Latin-American coffee if they drank less British tea. Over a period

of ten years or so a large portion of the rubber and quinine supply of the United States could be developed in South and Central America, but this would be done at the expense of the British and the Dutch. These are only a few illustrations. Hitherto all such matters have been left in the main to private enterprise. A transfer of purchases would require a national planning agency and the power to direct and control mercantile habits.

The economic relationship between South America and the rest of Latin America and the Oriental and African empires of the British, French, Dutch, and Belgians has not been adequately emphasized. These vast regions are competitive. The creation of greater economic self-sufficiency in the Western Hemisphere involves the economic strength of Great Britain and her allies. Increase of purchases from the one group usually means reduction of purchases from the other, and the more the United States finances the British, the Greeks, and the Chinese the less it can finance the production of complementary products and the foreign trade of Latin America.

The present world strategy of the United States —the policy of unlimited support for Great Britain and associated powers—will tend to slow down the

development of Pan-American economic solidarity and self-sufficiency. This policy of long-range defense of the Western Hemisphere will therefore need to be explained to Latin America. If the Latin Americans can be induced to support the policy, then they may contribute their foods and raw materials and reconcile themselves to whatever sacrifices the policy may require.

IV

TIERRA DORADA

EVERY decade or so the people of the United States seem to require faith in some bonanza land to lift them above the monotonous pursuit of profits and release their maximum energies. They have been enchanted by the fabled potentialities of China and Japan, by prospects envisaged in the basin of Africa's Congo, by visions of wealth to be garnered in the South Pacific and the East Indies, and by the hope of gaining easy riches in the American continent beyond the Caribbean. At least twice in less than a century many inhabitants of the United States, as already observed, have looked upon South America as a land of gold.

During the early 1850's not a few enthusiasts believed, or pretended to believe, that South America was shortly to become the richest continent on earth. The region would be transformed by the steamboat, improved mining machinery, agri-

cultural implements, Caucasian immigration, and international trade. Its immense natural resources would speedily be developed. Its vast interior valleys would pour forth their wealth, and within a few years its rapidly growing population would become the greatest import market on earth. Its huge river basins were described in *particular* as having an enormous economic future. South America was *tierra dorada.*

The New Granada Canal and Steam Navigation Company, organized in New York in the early 1850's to develop the Magdalena area, spoke in glowing terms of Colombia. The Magdalena Valley, in spite of its humid, torrid, fever-ridden swamps, was proclaimed to be richer and more healthful than the great basin of the Mississippi. The climate of New Granada as a whole was said to be better than the climate of California and its gold ten times more valuable. An immense stream of immigrants was sure to flow into the Magdalena Valley, it was declared, in search of precious metals and rich alluvial lands.

The Orinoco Basin and Venezuela received similar praise. Beyond the coastal mountains of Venezuela were said to be "vast plains covered with immense numbers of wild cattle." Ciudad Bolívar,

situated 250 miles above the Orinoco's mouth, was already a great emporium of commerce, it was asserted. The forests of Venezuela were filled with abundant trees of the finest quality. The whole country was blessed by nature with a magnificent climate and immense riches. By following the example of the United States in the arts and sciences, in law, education, and morals, Venezuela would soon take its place as a "bright star" in the galaxy of the South American nations.

Edward A. Hopkins, special agent and consul of the United States in Paraguay, described the wealth of the vast Río de la Plata Basin in extravagant terms. He enumerated specifically the rich products of each river valley. Recent voyages of discovery on the Pilcomayo and the Bermejo had fully proved, he said, that the regions through which they flowed were "among the most beneficent gifts of Providence to man," and the same was true of the other tributaries of that immense fluvial system. But Paraguay was the richest of all the states of the section. Its soil would produce tobacco and tea, all the useful grains, every kind of vegetable, the most delicious fruits, and the finest grass for livestock. Paraguay's forests were growing spontaneously "everything necessary for the com-

fort and luxury of mankind": timbers and dyewoods of all varieties, cotton for clothing, herbs for man's ailments, and incense for his olfactories. The climate was excellent the year round. Viewing the Río de la Plata area once more as a whole, Hopkins declared: "Under free navigation of these delightful regions, their exports must double within six months, and a new impulse [be] given to all their affairs. . . . The appearance of a steamboat in those waters would increase our exportations . . . a million of dollars the first year . . ." and thereafter exports would double semiannually. The people of the United States were eager, said Hopkins, "to extend the *area of freedom.*" Let them extend it to southern South America. "The order of Providence seems to have constituted us the protector and teacher of the other parts of our hemisphere."

The greatest South American enthusiast of the period was Matthew F. Maury, native of Virginia, adopted son of Tennessee, and head of the National Observatory at Washington. Maury's agitation was begun in 1849 with an article in *De Bow's Review;* it reached its culmination in 1853 with the adoption of his memorial on the subject by the Memphis Commercial Convention. He filled

the newspapers and periodicals with his visionary expositions and introduced the topic in a number of Southern commercial assemblies. In the Memphis convention he was eloquently supported by Bishop James H. Otey of Tennessee. Maury considered the problem as a whole and in all of its ramifications. The development of the great river valleys of South America would cure all the ills of the nation: poverty, unemployment, the race problem, and conflict between North and South. His zeal and industry were tremendous; he was almost a monomaniac.

"The country that is drained by the Amazon, if reclaimed from the savage, the wild beast, and the reptile, and reduced to cultivation . . . would be capable of supporting with its produce the population of the whole world," Maury declared. "With the population of Belgium to the square mile, the valley of the Amazon would support 601,660,000 inhabitants." In Maury's fertile imagination all South America east of the Andes was virtually united by the interlocking basins of its great rivers. "The tributaries of the Amazon inosculate with those of the Rio de la Plata on the south, and unite with the Orinoco on the north," or at any rate they

could easily be connected by short artificial canals. The only project he failed to suggest was a tunnel through the eastern Andes to connect the Orinoco and the Magdalena! He invested South America "with all the fabled wealth of the Indies." By virtue of the steamboat and the industrious labor of immigrants with the proper tools in their hands, India could be lifted up "as it were . . . and set down . . . in the Amazon water-shed, before our own doors." The Amazon Valley and the eastern slopes of South America were naturally tributary to the Caribbean Sea, the Gulf of Mexico, and the great Mississippi Basin.

Such was the total vision. And Maury did not neglect the details. He considered the Amazon proper and each of its main tributaries, pronouncing them "beautiful," "majestic," "magnificent," and reserving for the main river the most enthusiastic description of all. Quoting perhaps his own contribution from the report of his relative, William Lewis Herndon, who had just completed his Amazon explorations, Maury declared that the vast basin of this mighty river was the "most enchanting" and potentially the richest region on earth. "From its mountains you may dig silver,

iron, coal, copper, quicksilver, zinc, and tin; from the sands of its tributaries you may wash gold, diamonds, and precious stones; from its forests you may gather drugs of virtues the most rare, spices of aroma the most exquisite, gums and resins of the most useful properties, dyes of hues the most brilliant, with cabinet and building woods of the finest polish and most enduring texture. Its climate is an everlasting summer, and its harvests perennial." Two crops of rice and four of corn could be produced each year and the bounty of fruits, oils, and nuts was perpetual, not to mention the vast prospects for cotton.

The enthusiasm of Hopkins, Maury, the gold seekers, and the shipping speculators was contagious. From Massachusetts and New York to Kentucky and Tennessee, from Richmond and Washington to Charleston and New Orleans, the newspapers were full of reports from South America. Not only the Eastern Seaboard but the South and West were deeply interested. The South and West hoped to establish direct steamship connections with the rich neighboring continent. The national periodicals also dwelt upon the magnificent prospects of South American development. If *De Bow's*

Review reprinted the writings of Maury, *Putnam's National Magazine* and *Hunt's Merchants' Magazine* made original contributions; Herndon's report on his explorations was widely reviewed.

An article in *Hunt's Merchants' Magazine* for July, 1854, declared that nature had "almost exhausted her various cornucopia" in the vast basin of the Amazon. Cotton was growing on trees eight or ten feet high. Rice, coffee, sugar cane, and tobacco were thriving everywhere. Gums and drugs, fruits and melons, indigo and many other dyes were abundant. Gold and silver lay beneath vast stretches of the earth or were drifting down the eastern slopes of the Andes in a multitude of rivulets; diamonds and other precious stones were plentiful. The climate was temperate and healthful. "The fiction of El Dorado has long been dissipated; but in its stead the region of the central and lower Amazon glows with the reality of a country rich in the vegetable products of nature almost beyond description; affording the most alluring temptation for settlement, for cultivation, for manufacture, for commerce, for enterprise of almost any and every description. Ay, and if no gilded king claims the fealty of its population it is not that

gold is not sufficiently plenty . . . or that there is no unctuous matter where . . . turtle oil is the leading article of export."

In *Putnam's National Magazine,* March, 1854, a writer declared that Brazil should not be allowed to keep this golden empire closed to Yankee enterprise, "the home of anacondas, ugly chattering monkeys, and insidious vampires." Neither Brazil nor any of the rest of the states of the region were capable of substituting the reality of a golden land for the romance of the gilded man. Only Europeans and the people of the northern part of the United States, contended the writer, possessed the necessary capital, skill, and enterprise to banish the "loneliness" of "sullen solitudes" and introduce civilization and progress. "Only give the Yankee a chance, and, in spite of insects, snakes, frog-concerts, and dirty Indians, he will raise you to power and glory."

José Villamil, who traveled in the spring of 1853 from New Orleans through the Southwest to Washington where he took up his duties as Ecuadorian chargé d'affaires, declared after conversations with influential men whom he met along the way that the feeling of the whole region was pointing definitely toward the Amazon. A journey of

two thousand miles by boat had convinced him that the North American was "infinitely more skilful than any other in the management of river steamers." Villamil believed that capitalists of the United States were ready to send steamboats and immigrants to the rich valleys of South America and urged his government to encourage them. "God has created the Torrid Zone to be the abode of man," he declared, and "the future of Ecuador is unbounded." The government at Quito shared Villamil's optimism. Bolivia, Argentina, and Venezuela seemed almost as enthusiastic. Peru, Colombia, and Paraguay were less thrilled, although not wholly indifferent. But Brazil had closed the gates of Paradise and was keeping them shut. All that was needed to make the great heart of South America teem with life—"the steamer, the emigrant [*sic*], the printing press, the axe, and the plough" —must await the pleasure of a single government, complained Maury. "The dry land was placed here by the Creator for man's use," he contended. "The policy which shuts man out from it is an anomaly and a monstrosity." Leaders of the United States were talking about annexing Cuba and forcing open the ports of Japan; but the "problem of the age" was "the free navigation of the Amazon and the

settlement of the Atlantic slopes of South America."

Meantime, the government of the United States had sent exploring expeditions to the Amazon and the Río de la Plata; private enterprise had placed steamboats on the Magdalena, the Paraguay, and the Orinoco and was preparing to investigate the resources of the Orinoco and its tributaries; mining parties had rushed over the Andes in search of the precious metals; and a group of settlers from the United States had sought homes in the hot Santiago Valley near Borja. It remained for the authorities at Washington to persuade the government at Rio de Janeiro to reverse its policy.

Negotiations designed to open the Amazon to world shipping dragged along for months and vigorous encounters between the diplomats of the United States and Brazil occurred in half a dozen South American capitals. The Brazilians, however, could not be overcome either by a direct or a flank attack. They had been frightened by the sudden development of North American interest in the Amazon, by veiled threats in Congress and the press, and by open menace of filibuster expeditions against the Brazilian coast. The Brazilian government kept the gates of Paradise closed until 1867.

What might have happened if domestic discord had not grown more violent in the United States one can only conjecture. The struggle between North and South for the control of the West continued with increased vigor and bitterness after the passage of the Kansas-Nebraska Bill in 1854. Railroads to the Pacific were soon deemed more urgent than steamers on the Amazon. To ardent Southerners, the occupation of the western plains and valleys of the United States by a population friendly to slavery in order to maintain the balance of power against the abolitionists in the Senate became a matter of life and death. Trade with South America and development of its eastern slopes, a vision which had aroused such intense interest twelve months before, now seemed comparatively unimportant. The flood of enthusiasm for the neighboring continent quickly subsided.

By the beginning of 1855 the future of the Amazon Basin was being contrasted unfavorably with the future of the Gulf states properly linked with the Far Southwest. To these Gulf states, it was contended, all the wealth of the Orient and the Indies could be brought by means of steamers plying across the Pacific and a railway from San Francisco to San Diego and eastward through El

Paso Gap and the Lower South to Jacksonville, Florida. In March, 1855, Lardner Gibbon's volume on his Amazon explorations was described as an "unpretending sketch" designed not to "attract public attention unnecessarily" to foreign regions in "preference to our own." Gibbon, it was said, did not "suggest that his countrymen would be more benefited by mining, agriculture, or other employment in these [distant] countries than at home." "It is wrong," said the *National Intelligencer,* "to excite the imagination by reports of large lumps of gold, diamonds, and gum-elastic . . . somewhere in the Amazonian wilderness, where the climate is sickly and . . . the aborigines are savage . . . , with a fair proportion of beautiful tigers and enormous boa-constrictors." The South American excitement was over. Attention had been diverted by the regional struggle in the United States.

Not much harm and some good had been done. The aggressive temperament had caused uneasiness in some quarters of South America and especially in Brazil. In Ecuador, Bolivia, and perhaps elsewhere it also aroused false hope. The United States and Paraguay Navigation Company, launched by Edward A. Hopkins and his Rhode Island victims,

encountered bankruptcy and developed a claim against the dictator of Paraguay; but the small steamship ventures of North Americans in Colombia and Venezuela were still afloat in 1860. Members of the mining parties from the United States either perished in the Amazonian jungle or barely escaped with their lives; American settlers on the Santiago, after suffering hardships and disappointment and precipitating a boundary dispute between Ecuador and Peru, left the region sadder but wiser than when they entered; and by 1860 pioneers from the United States had inaugurated the railway era in half of the South American nations.

But South America's tropics were not to be subdued by sudden bursts of enthusiasm. Spain, Portugal, and the Catholic missionaries had failed to civilize the region during the colonial period. Laborers had died like flies in building the Panama Railway during the 1850's; they would die again before the Panama Canal was completed. And more of them would perish in the Amazonian jungle in their attempts to construct the Madeira-Mamoré Railroad. The closing years of the nineteenth century witnessed a mighty rush of the rubber gatherers, but they went to exploit and not to civilize. They were followed by the petroleum

geologists, the oil drillers, and perhaps others with different objectives. But in 1941 it was yet to be demonstrated that a thriving civilization could be developed in the lowland tropics of South America's interior.

The 1920's furnished in the United States a bull market for South American bonds. Space does not permit quotations from the flood of enthusiastic literature that poured forth from the offices of investment bankers, crowded the columns of the newspapers, and appeared even in the government publications of the United States and South America. Bonds bearing interest at from 6 to 8 per cent were offered to North American investors at par or slightly below. These were the substance of things hoped for, the evidence of profits obvious to credulous victims. Investments of United States citizens in South America were estimated at only $175 million shortly before the outbreak of the First World War. They amounted to some three billion at the end of 1930. More than a billion and a third of this total represented the par value of South American government bonds; the rest was in tangible properties mainly under the management of United States citizens: in manufacturing

organizations, in petroleum, mining, agriculture, communication and transportation, sales agencies, and other enterprises. The aggregate for the rest of Latin America was much less, approximately two billion, consisting mainly of direct investments in properties under American control. Only South American government bonds will be considered here.

Although the total face value of South American bonds in the hands of North American investors at the end of 1930 was slightly less than $1,400 million, they had purchased during the previous decade a larger quantity of long-term bonds. The aggregate had been reduced by funding operations and redemptions through amortization. Between 1920 and 1930 investment bankers of the United States distributed in American markets South American long-term bonds aggregating a face value of at least $1,600 million. This sum was not far below the total of all the long-term issues sold by the ten nations of that continent in all the markets of the world during the previous century. For the investment bankers of the United States, who received fat commissions for the flotation of most of these bonds, South America was a *tierra dorada* —or, more accurately, it was a region cleverly used

for the purpose of extracting money from fellow citizens in whose unsophisticated minds the continent to the south was a land of gold.

No government bonds of Ecuador, Paraguay, and Venezuela were issued during the period. Ecuador was probably considered a bad risk even in this most optimistic era, Paraguay was scarcely known, and the dictator of Venezuela was opposed to foreign loans. Citizens of the United States bought old Ecuadorian bonds, however, and made other types of investments in these three countries. The total at the end of 1930 was slightly more than $272 million, mostly in Venezuela.

Between 1924 and 1929 Argentine long-term bonds—national, provincial, and municipal—with a face value of some $421 million were sold in the United States. The national government of Argentina obtained fairly cheap money; it sold no issue to the bankers for less than 91.75; it sold two for 95.50. Save for one issue bearing 5.5 per cent, the annual interest rate was 6 per cent. Bankers' profits on these national bonds were not excessive; the commissions ranged from 4.5 to 2.6. The majority of the flotations were made by J. P. Morgan and Company and the Chase Securities Corporation.

Money rates were higher for the Argentine

provinces, five of which floated loans in the United States during the boom period of the 1920's. Their bonds sold readily in the United States, each issue originally bringing from 94.5 to 96.5, an issue of the Province of Mendoza selling for 98.75 and one of the Province of Buenos Aires for 99. But the provinces usually sold their bonds to the bankers at prices ranging from 85 to 90. The price paid by the bankers was never higher than 95 and seldom above 90. Spreads for the bankers were rarely smaller than 4 points; usually they ranged from 5 to 12.75. The interest rate varied from 7 to 7.5 per cent, with a rare issue bearing only 6 per cent.

The cities, especially Buenos Aires, fared somewhat better. None of their bonds bore interest of more than 7 per cent; those of Buenos Aires bore 6 per cent and 6.5 per cent. The bankers paid a little higher price for the bonds and received a smaller spread.

Between 1922 and 1928 Bolivian bonds aggregating a face value of $66 million were marketed in the United States. Bolivian governments were weak and jittery, and preparations were under way for a war with Paraguay. Railways, highways, and armaments were urgently needed. In 1922 the Stifel-Nicholaus Investment Company of St. Louis

bought a $29 million issue of 8 per cent bonds, $24 million at 92 and $5 million at 87.50. The large issue sold at 101, with the assistance of the Equitable Trust Company, thus yielding the bankers a spread of 9 points; the $5 million issue was marketed at 93, the spread being 5.5. In 1927 Dillon, Read and Company bought a $14 million issue of 7 per cent bonds at 90.05 and distributed them in the United States at 98.50, thus feasting on a spread of 8.45. This of course was the gross profit. Expenses were incurred, including incidentals. Leonard Kennedy, at that time head of the engineering firm of Kennedy and Carey, was paid $70,000 for going down to Bolivia and investigating the prospects for railway construction. Another civil engineer was paid $10,000 for introducing a Bolivian agent to Dillon, Read and Company. It must be observed, however, that Kennedy and Carey used the proceeds of the loan to build fifty miles of railway across Bolivia's mountains, and that the Dillon family owned a 45 per cent interest in the Kennedy and Carey Company. The bankers therefore had ample opportunity to recover all incidental expenditures. In 1928 Dillon and Read brought out another issue of Bolivian bonds, a $23 million issue bearing 7 per cent interest. They

were bought at 93 and sold at 97.5, the spread thus being 4.5. A considerable portion of the proceeds was used to pay for armaments purchased by Bolivia in England at a time when Secretary Frank B. Kellogg was trying to abolish war, and the Bolivian minister of finance was accused of receiving a bribe of $40,000 in connection with the loan.

Between 1921 and 1930 investment bankers of the United States sold more than 420 million dollars' worth of Brazilian long-term government bonds in the United States. The administrative units of Brazil are the nation, twenty states, one territory, a federal district, and numerous municipalities, and it may be doubted whether the bankers would have overlooked any of them if the Great Depression had not descended upon the world in 1929.

Dillon, Read and Company, by virtue of connections with Sir Alexander MacKenzie, head of the Brazilian Traction Company (a Canadian corporation), and with Rothschild and Sons of London, secured the management of the flotation of Brazil's national bonds. Dillon and Read marketed long-term issues, 1921–1927, aggregating a face value of $176.5 million. The interest rates varied from 8 per cent to 6.5 per cent; the prices

paid by the bankers for the bonds ranged from 84 to 91, with the exception of one small issue which cost them 94.50; the spread on this small issue was only two points, but on the rest it ranged from 4.5 to 8. The proceeds of a $25 million issue were earmarked for the electrification of a railway, but the money was used for other purposes and in 1941 the road was still not electrified. The profits of Dillon, Read and Company were so immense that they set up a dummy organization, the Eastern Trust Company, in order to avoid straining the vaults of the United States Treasury: the purpose of the dummy company was the reduction of income taxes.

Between 1921 and 1930 some seventeen issues of bonds were marketed by investment bankers of the United States for at least nine of the Brazilian states. Three examples will illustrate the terms of these state loans. Speyer and Company managed the flotations of the depressed coffee state of São Paulo, marketing bonds aggregating a face value of over $80 million. The interest rate was usually 7 or 8 per cent, although one small issue bore only 6 per cent. The bankers enjoyed commissions ranging from 4.58 to 7.5, purchasing the bonds at prices varying from slightly above 89 to 93. The National

City Company managed two issues aggregating a face value of $16.5 million for Minas Geraes, the land of diamonds and minerals. The bonds bore interest at 6.5 per cent. The bankers bought them at 93.17 and 82.33 and sold them at 97.50 and 87, garnering an average commission of 4.5. Minas Geraes was preparing to support Getulio Vargas's revolt of 1930. Four issues were marketed for Vargas's own state, the farming and ranching state of Rio Grande do Sul. The aggregate face value of the bonds was $47 million. Two of the issues—both managed by Lee, Higginson and Company—will indicate the terms of the loans. For bonds with a face value of $20 million, half bearing 7 per cent and half bearing 8 per cent, they paid an average of 91.50. They sold them at an average of 98.75 and thus fattened on a gross spread of 7.25.

The bonds of Rio de Janeiro and Porto Alegre will illustrate the terms on which Brazilian municipal bonds were issued. Porto Alegre is the capital of Rio Grande do Sul, the home state of Getulio Vargas. Between 1921 and 1928 Lee, Higginson and Company marketed in the United States three issues of the city of Porto Alegre amounting to a total of $9.75 million at par. The bonds were bought at prices ranging from 88.25 to 92 and sold

at from 96 to 99, the spread ranging from 9 points down to 5.5. The interest rate was 7, 7.5, and 8 per cent. The four issues distributed for Rio de Janeiro fetched a good price in the United States. None were sold by the bankers for less than 97; an issue of 1922 brought 103. In only one instance, however, has the writer discovered the price paid by the investment house. The issue of 1921—$12 million bearing 8 per cent interest—was purchased by Dillon, Read and Company for 89 and sold at 97.75, thus yielding them a gross spread of 8.75. The purpose of the issue was the removal of a hill that was hampering the growth of Rio de Janeiro. Dillon and Read had to pay $120,000 for the privilege of floating the loan; it cost them that sum to liquidate the claims of Imbrie and Company, a bankrupt firm which held a monopoly contract for financing the Brazilian capital. But Dillon and Read found means of recouping this expenditure. The task of removing Castle Hill was assigned to Leonard Kennedy and Company, in which the Dillon family owned a 45 per cent interest; and Kennedy and Company made a clear profit of $350,000 in the leisurely demolition of a part of that hill.

During the ten years or so following the First

World War, Chile was economically in the doldrums, and politically the country was turbulent during most of the period. But this had little effect on the optimism of the investment bankers of the United States. Between 1921 and 1930 they distributed Chilean long-term bonds with an aggregate face value of approximately $330 million mainly in the United States. In the process of bailing out the nitrate companies they distributed another $90 million or so, but this survey is limited to government and government-guaranteed bonds. These issues may be arranged in three classifications: bonds of the national government, corporate bonds guaranteed by the national government, and municipal bonds. They will be examined in that order.

Bonds aggregating a face value of some $220 million were floated by the national government. The interest rate ranged from 6 per cent to 8 per cent and the price received by Chile from the investment bankers ranged from 94 down to 87.13. The gross spread for the financiers was never less than 4 points and was sometimes 5 and 6 points. J. P. Morgan and Company managed an issue in 1921, harvesting a commission of 5 points, and then withdrew. The bulk of the flotations and the

lion's share of the profits went to the National City Company, who were presumably less conscientious regarding the soundness of investments offered to their fellow citizens.

Kuhn, Loeb and Company managed the distribution of the five issues of government-guaranteed bonds of the Mortgage Bank of Chile. The total face value of the bonds was $90 million; the interest rate varied from 6 to 6.75 per cent. For these bonds the bankers paid from 87.75 to 95.50; purchasers in the United States bought them at prices ranging from 92 up to 99.25; and the profit of the bankers was slightly more than 4.5. In brief, Kuhn, Loeb and Company, with their banker affiliates, harvested a gross profit of between four and five million. But there were incidental expenses. Dreyfus and Company of Paris received a "finding commission" of $450,000 and Norman Davis was paid a fee of $35,000.

Chilean municipal bonds aggregating a face value of over $21 million were issued between 1928 and 1930. Prices paid for them by the managing banks—Hallgarten and Company and the Grace National Company—ranged from 90 to 92, with an issue of $4 million bringing 96.30. Original purchasers in the United States bought the $4 million

issue at slightly above par; they paid 94 and 96.5 for the rest. The feast of the bankers seems to have been modest, a little over 4 points.

Investments of citizens and corporations of the United States in Colombia were some $302 million in 1930, well over half of the total (some $170 million) in government and government-guaranteed bonds. The administrative units of Colombia are the nation, the departments, and the municipalities.

Owing to brisk competition, especially after 1926, the national government of Colombia received on the whole rather cheap money. Interest rates varied from 6 to 6.5 per cent, with one small issue bearing only 5 per cent. The commission of the bankers—Hallgarten and Company managed the flotation of most of the national bonds—was never higher than 4.5, and was usually considerably less.

With reference to other types of bonds the story is different. For bonds of the Agricultural Mortgage Bank, all guaranteed by the national government, the investment bankers paid from 85 to 90.40 and feasted on commissions running from 3.5 up to 9. The total face value of the issues was $16 million, $6 million bearing 7 per cent and $10

million bearing 6 per cent, and the prices paid by the original purchasers in the markets of the United States ranged from 92 to 94. The issues were managed by Hallgarten and Company; Dillon, Read and Company; and W. A. Harriman and Company.

Between 1925 and 1930 six of Colombia's fourteen departments marketed bonds in the United States. They were bought at high prices by investors who knew next to nothing of these administrative divisions, but the bankers purchased them at large discounts. The price paid by the bankers ranged for the most part from 83 to 90; only Antioquia received more than 90 and that department never sold bonds for more than 92.25. The spreads for the bankers were therefore enormous; their commissions ran from 4.25 to 9, 11, and even 13. The bankers themselves must have been astonished at the easy profits accumulated through these transactions. The United States was filled with gilded innocents; only engraved paper was needed to rub the gold from them. The interest rate on these bonds was usually 7 per cent; in one instance it was 6.5 per cent and in two it was 7.5 per cent. Occasionally "finding commissions" were paid by the financiers. On a Cundinamarca loan of 1928 J. and W. Seligman and Company paid one Antonio

Borda the sum of $33,981.64. On two Cauca Valley loans of 1926–1927 they paid $40,000 to P. J. Eder, a New York lawyer with relatives in that part of Colombia.

The most thriving cities of Colombia are Bogotá, Medellín, Barranquilla, and Cali. The first issue of the bonds of Bogotá, Colombia's capital, sold to American investors was the issue of 1924. The face amount of the bonds was $6 million and the interest rate was 8 per cent. They were bought by Dillon, Read and Company at 87.50 and sold at 98, the commission thus amounting to only 10.5! Baker, Kellogg and Company managed the second issue, a series bearing interest at 6.5 per cent. They bought the bonds in 1927 at 85 and sold them at 91, the spread being 6 points. The first issue of Medellín bonds marketed in the United States was managed by the Equitable Trust Company. Their face value was $3 million and the interest rate 8 per cent. The bankers bought the bonds in 1923 at 90 and distributed them at 98, thus feasting on a spread of 8 points. In 1926 and 1928 Hallgarten and Company managed two issues for Medellín. They bore interest at 7 per cent and 6.5 per cent respectively and their face value was $3 million and $9 million. The financiers bought the bonds at 85

and 89.125 and the sales commission was 8.25 and 4.125. Between 1925 and 1929 the Central Trust Company of Chicago headed a syndicate which marketed 8 per cent bonds of Barranquilla aggregating $2.5 million. The purchase price was from 86 to 89; the price of issue in the United States ranged from 99 to 102. The average spread on $2 million was 13 points; on half a million it was merely 11! But Barranquilla needed a sewer system and wholesome water. The sale of Cali's bonds was managed by Marshall Field, Glore, and Ward of Chicago. They planned a flotation of 7 per cent bonds aggregating a par value of $5 million, but only $2,885,000 could be issued between 1927 and 1930. The bonds were bought at 86 and 87, and the spread on two issues amounting to a total of $2,635,000 was 7 points on $2 million and 11 points on the remainder.

This writer was in Colombia in 1928 when the bond-selling boom was at its height. The investment bankers had twenty-nine agents in the country. The writer was urged by a number of Colombians and one of the secretaries of the United States Embassy to warn the people of the United States against this orgy of speculation. He composed a

brief admonition and submitted it to the *Current History Magazine*. The article was returned; the editor said that he was publishing history and not prophesy. It was an age of optimism.

A warning, circulated by the Commerce Department of the United States, was sent out to the bankers but not to the public. It was suspected that the warning, so rare during the period, expressed concern regarding oil and not with respect to the soundness of investments in Colombian bonds. The Colombian government had nullified the Barco concession, which was then owned by the Mellons. Circumstantial evidence indicates that the purpose of the warning was to prevent further loans until the concession was restored. A new concession was granted on March 3, 1931.

Until 1922 the Peruvian government had done practically all of its financing in Europe, in France and England mainly. The debt record of the nation was bad—the bankers of the United States knew that. But Peru's debt record had little influence on these investment bankers. Between 1922 and 1929 they marketed Peruvian bonds amounting to an aggregate par value of some $140 million. The loans may be divided into two groups: those re-

deemed in the course of three or four years and those remaining outstanding for a much longer period.

The bonds of the first classification aggregated a par value of $35 million and were all redeemed by the end of 1928. They bore interest at 8 per cent—in two instances the rate was 7.5 per cent—and were sold to the bankers of the United States at prices ranging from 90 to 96. Except for a very short-term loan of $2 million which yielded a commission of only 2 per cent, the bankers' spread ranged between 5 points and 7.8 points. Further profits may have been garnered through redemptions at above par of such bonds as the financiers retained or repurchased.

The large flotations of long-term Peruvian bonds began in 1927. They began with the bribing of Juan Leguía, the son of the dictator of Peru. The commitment was made by F. J. Lisman and Company in return for an agreement to permit J. and W. Seligman and Company, with Lisman and other associates, to monopolize the flotation of Peruvian bonds in foreign markets. In 1927 and 1928 Seligman managed the distribution of three issues of Peruvian bonds aggregating a face value of $100 million, $90 millions of which were sold in the

markets of the United States. Peru sold the paper to the bankers at contract prices running from 86 to 90. The bankers distributed the three issues at 91, 91.5, and 96.5; their spread averaged more than 5 points—on the first issue it was 6.5. Interest rates were 6 per cent and 7 per cent.

Sums paid out by the bankers to "insiders" and grafters were not subtracted from these huge gross profits. By the terms of the contracts Seligman received allowances for expenses and "disbursements of council," allowances amounting to at least $500,000, possibly $550,000. The total spent for "finding commissions" was as follows: $416,000 to Juan Leguía; $67,000 to Bolster and Company; $40,000 to Samuel A. Maginnis, former diplomat of the United States in Bolivia; and $10,000 to T. V. Salt. The grand total for bribery, influence, advice, and blackmail was therefore $533,000; and the bill was paid by Peru.

The Peruvian province of Callao as well as the city of Lima also sold bonds in the United States. The Callao issue—$1.5 million with interest at 7.5 per cent—was purchased by Seligman and Company at 92.5 and distributed in the United States at 99, the spread for the financiers being 6.5. The Lima issue, with a par value of $3 million and an

interest rate of 6.5 per cent, was managed by E. H. Rollins and Sons of New York. They bought the issue for 87.3 and distributed the bonds at 93, their spread being 5.7.

Investments of United States capital in Peru in 1930 were valued at approximately $200 million. More than $90 millions of that sum were in government bonds.

Total investments of citizens of the United States in Uruguay were estimated at $45 million in 1924 and $81 million in 1930. More than a third of the aggregate for the latter year represented direct investments: in packing houses and public utilities for the most part. The rest was in government bonds. The face value of Uruguayan issues sold in the United States between 1916 and 1929—all but one issue being distributed between 1921 and 1929—was well over $58 million. Bearing interest at 6, 7, and 8 per cent, the bonds found a ready sale. None sold for less than 90; most of them brought 96.5 to 98.5. But the bankers bought the bonds for as low as 85 and never for more than 94; their commissions ranged from 5 to 6.5, except for one issue which yielded a spread of only 3.3. The largest single issue, $30 million, was managed by Hallgarten and Company. Others were distrib-

uted by syndicates headed by Hallgarten; the Equitable Trust Company; Dillon, Read and Company; or the Guaranty Company.

With reference to South America as well as the rest of Latin America the United States confronted a serious investment problem in the 1930's and early 1940's. Oil properties had been confiscated in Bolivia as in Mexico; profits from direct investments were threatened or reduced elsewhere. And nearly 68 per cent of the South American bonds were in partial or total default (end of 1939). These investments in South American government securities were a magnificent contribution to the continent's development. They helped to provide roads, railways, sanitation, and various other benefits. In many cases, however, the proceeds of the bonds were unwisely spent and world conditions since 1929 made apparently prudent investments unproductive. The Roosevelt administration left investors to shift for themselves in the main. In 1934 a Protective Council was set up to do the shifting for those who had purchased government bonds. The slow progress of that organization was indicated by the high percentage of bonds in default.

In 1940 and after, South Americans and other

Latin Americans were needing money again. They required capital for armaments, naval bases, new industries, new agricultural enterprises, and better means of transportation. They needed capital for many purposes. But investment bankers could not float bonds of defaulting governments in the markets of the United States. Those holding the old bonds would not buy the new issues and, unless they desired more companions in misfortune, would warn others not to buy them. All loans were being made through the Reconstruction Finance Corporation and the Export-Import Bank. That is to say, they were being made by the United States government. The new system differed from the old in at least three respects: (1) The contribution to the development of South America and the rest of Latin America was being made by all the people of the United States and not merely by those who once indulged in the purchase of bonds. (2) The motive for the investment was not the highest return on the capital but the security and general welfare of Latin America. (3) The investment bankers were deprived of their feast; they had no spread at all. Perhaps Latin-American grafters were also excluded.

In respect to investments, however, as in the case

of inter-American commerce, the broader world policy of the United States was affecting its South American and Latin-American policy. The larger the loans to Great Britain, China, and Greece, the smaller the loans to South America. The United States was giving primary attention in 1941 to what was conceived to be its first lines of defense, but it was not neglecting the home front. It was pouring out its resources on several fronts and hoping that the aggressors might not be able to cross the Atlantic.

The crisis demanded that errors of the past in inter-American relations be remedied and all grievances settled. It demanded the prompt and sane development among Americans, North and South, of effective common interests and ideals. The New World must be preserved as the proving ground for a civilization dedicated to peace, freedom, and opportunity for all.